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November 7, 1996

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
Washington, DC 20554

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NOV - 7 1996

**FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY**

Re: Ex Parte in CC Docket 96-149

Dear Mr. Caton:

This is to inform you that on November 7, 1996, the undersigned sent a letter regarding the above-referenced proceeding to Richard Welch of the Policy and Program Planning Division of the Common Carrier Bureau.

The purpose of the letter was to discuss issues relating to joint marketing in local and long distance services, raised during an ex parte meeting. The letter was consistent with BellSouth's position already filed in this proceeding.

Pursuant to Section 1.1206(a)(2) of the Commission's rules, two copies of this notice are being filed with the FCC. Please associate this notification with the above-referenced proceeding.

Sincerely,



Robert T. Blau

Attachment

cc: Richard Welch
Regina Keeney
Richard Metzger
Carol Matthey
Radhika V. Karmarkar
Michelle Carey

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Richard Welch
Chief, Policy and Program Planning Division
Common Carrier Bureau
Federal Communications Commission
Washington, DC 20554

**FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY**

Dear Mr. Welch:

I am writing as a follow up to our recent discussions about BellSouth's joint marketing strategy in the post-Telecommunications Act world. What follows is a brief description (supplemented by the attachments provided herewith) of BellSouth's marketing philosophy couched in terms of: 1) what our customers tell us they want, 2) what our competitors, like AT&T and MCI, are doing to respond to those desires, and 3) specific marketing activities that BellSouth will need to carry out under the Commission's joint marketing rules if we are to compete effectively.

As we discussed, BellSouth has recently conducted significant research into the qualities which consumers look for in a telecommunications company and the types of services which meet these needs. Our customers consistently tell us that they look for four qualities in a full service telecommunications providers -- simplicity, convenience, choice and reliability. They also generally equate these qualities to specific marketing features such as easy to understand calling plans, one-stop shopping, packages of services, discounts and pricing incentives, a single bill, a single point of contact and a dependable, well-known service provider.

Predictably, our competitors, including AT&T and MCI, are currently reacting to these same consumer desires through a variety of marketing strategies designed to differentiate their services from our own. These strategies include innovative advertising, brand enhancement, the bundling together of services in creative product offerings and strategic partnerships inside and outside the telecommunications industry.

Unquestionably the most active and experienced player in the telecom marketing arena is AT&T, the largest player in the long distance market, which spends over \$800 million per year building brand loyalty through advertising. AT&T is currently developing a marketing strategy which capitalizes upon consumers' desire for simplicity, convenience and choice. Known as "AT&T ALL," the strategy would package together a variety of telecommunications services such as long distance, local, Internet access, and wireless in one bundle, on a single bill, available with a call to a single number.

Due to its aggressive advertising and historical prominence in the market, among other factors, AT&T has built tremendous brand loyalty among its customers and the public at large. Consequently, AT&T, to a degree unrivaled by any of its competitors, will be able to prevail

upon its core base of consumer allegiance when offering newly-packaged services. A 1996 Merkely Newman Harty study demonstrates that consumers perceive AT&T as a "technologically advanced, professional and leading edge" telecommunications provider.

The results of a recent poll published in the New York Times show that 54% of consumers in BellSouth's territory would choose AT&T as their single provider for local and long-distance telephone service, whereas only 18% would choose BellSouth. Indeed, many BellSouth customers, when asked to name their local telephone company, reflexively respond "AT&T." This level of brand loyalty, in conjunction with its extensive advertising expertise, its prior experience in providing local exchange service, and its ability to evade the Telecom Act's joint marketing resale restrictions by rebundling unbundled elements, establishes AT&T as a marketing juggernaut in the telecommunications arena. MCI will be an active competitor in local telephone markets, particularly with the backing of its new prospective owner, British Telecom.

It is precisely because AT&T and MCI currently hold a marketing edge over BellSouth and other Bell Operating Companies, that we are especially concerned about numerous proposed rules that the Commission is considering in several proceedings (96-115/Use of CPNI; 96-149/Regulatory Treatment of LEC Provision of IXC Services; 96-150/Accounting Safeguards) that would widen, rather than narrow, this marketing gap. Because many of these proposals would necessarily restrict a BOCs ability to develop, package and market a wide full array of telecommunications product and services, they will impede, rather than promote, competition.

Rather than hamstringing BOC marketing efforts with additional onerous burdens and restrictions, BellSouth would urge the Commission to adopt rules that ensure joint marketing competitive parity. At a minimum, these rules should:

- Permit the use and sharing of customer information across affiliates for joint marketing of telecommunication services;
- Permit the joint development of marketing plans with no requirement to conduct joint marketing through an independent third party or outside marketing entity, no application of cost allocation rules to unregulated, competitive services and no separate affiliate requirement for the offering of information services;
- Allow for competitive and marketing parity between ILEC and CLECs as markets open;
- Allow BOCs to differentiate their services from those of their competitors;
- Permit joint advertising and promotions across affiliates;
- Permit the joint use of brand and trademarks, and administrative services; and
- Permit the rendering and customer support necessary for a single bill, including a single point of contact.

In addition to promoting full and fair competition across all telecommunications markets, rules that ensure joint marketing parity would clearly comply with the Congressional intent of the

Telecommunications Act. While the Act imposes structural separation of the BOCs' long distance entity, it expressly permits the BOCs to engage in the activities outline above.

Moreover, by setting a three year sunset on structural separations requirements between a BOC and a long distance affiliate, it is apparent that Congress intended these transitional requirement of Sec. 272 to be more of an accounting separate affiliate, rather than a strict Computer II, structurally separate affiliate. Sec. 272(b)'s requirements are a compromise -- a transitional entity somewhere between the Computer II separate subsidiary requirement and the Computer III non-structural safeguards regime. The Commission itself recognized when it adopted its Computer III non-structural safeguards that the costs in terms of lost efficiency of the more onerous Computer II model outweigh any potential benefits that such requirements might conceivably bring to consumers. Thus, the adoption of more onerous Commission principles will contravene Congressional intent--and unnecessarily hamstring a BOC affiliate in its attempt to compete.

I greatly appreciate the time and consideration you and your staff have given us in discussing this matter. If you have any questions or need additional information please do not hesitate to call me.

Sincerely,

A handwritten signature in dark ink, appearing to read "Robert T. Blau". The signature is fluid and cursive, with a large initial "R" and "B".

Robert T. Blau

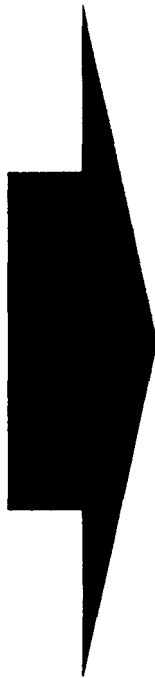
enclosures

cc: Regina Keeney
Richard Metzger
Carol Matthey
Radhika V. Karmarkar
Michelle Carey

Customer Needs

Customers tell us that they want...

- Simplicity
- Convenience
- Choice
- Reliability



And they translate these into...

- Easy to understand plans
- One stop shopping
- Packages of services
- Discounts & pricing incentives
- Single Bill
- Single point of contact
- Dependable, well-known service provider

Market Strategies-Other Competitors

- ♦ Advertising
 - » via traditional media
 - » via bill inserts to existing customers
 - » via “the telephone directory”
 - multiple “local” companies listed in customer guide pages
 - “local company” specific customer guide pages
- ♦ Branding, Bundling, Partnering
 - » Use of non-traditional channels
 - real estate agents, banks, etc.
 - apartment complex, office complex
 - retail stores

SIMPLICITY -- AT&T's Market Strategy

- ♦ AT&T.ALL
 - » One number to call
 - » One bill to pay
 - » All services:
 - long distance
 - local
 - internet
 - wireless

Market Perception - BellSouth vs. AT&T

- ♦ AT&T -- nationally renowned
 - » 1995 advertising spending >\$800M
 - » viewed as technologically advanced, professional and leading edge*
- ♦ BellSouth -- regional company
 - » 1995 advertising spending \$82M
 - » viewed as reliable, small and trustworthy*

*Ad Watch, Merkely Newman Harty 1996 study

AT&T's Edge

Who consumers say they would like to be their single provider for local and long-distance phone service (broken down by Baby Bell territories)

Territory

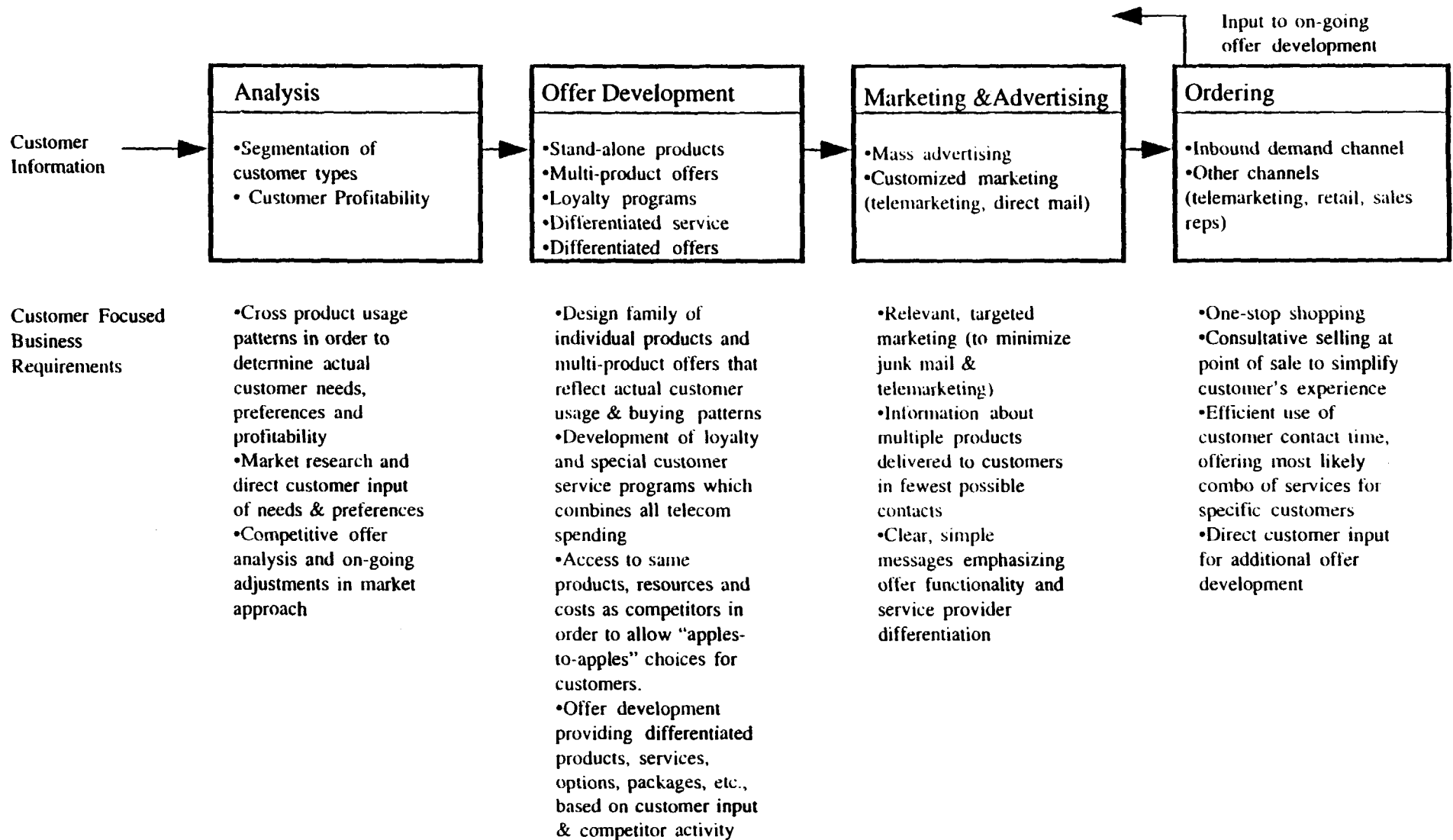
Carrier of Choice	Ameri-Tech	Bell Atlantic	Bell South	Nynex	Pactel	SBC	U S West
AT&T	41%	49%	54%	44%	54%	45%	49%
MCI	5	5	4	7	5	7	2%
Sprint	4	3	6	3	4	4	--
Ameritech	27	--	--	--	--	--	--
Bell Atlantic	--	30	--	--	--	--	--
BellSouth	--	--	18	--	--	--	--
Nynex	--	--	--	31	--	--	--
Pacific Telesis	--	--	--	--	9	--	--
SBC	--	--	--	--	--	21	--
U S West	--	--	--	--	--	--	29
GTE	6	2	4	--	6	3	4
No response no preference	17	11	14	15	22	20	11

BellSouth's Joint Marketing Position

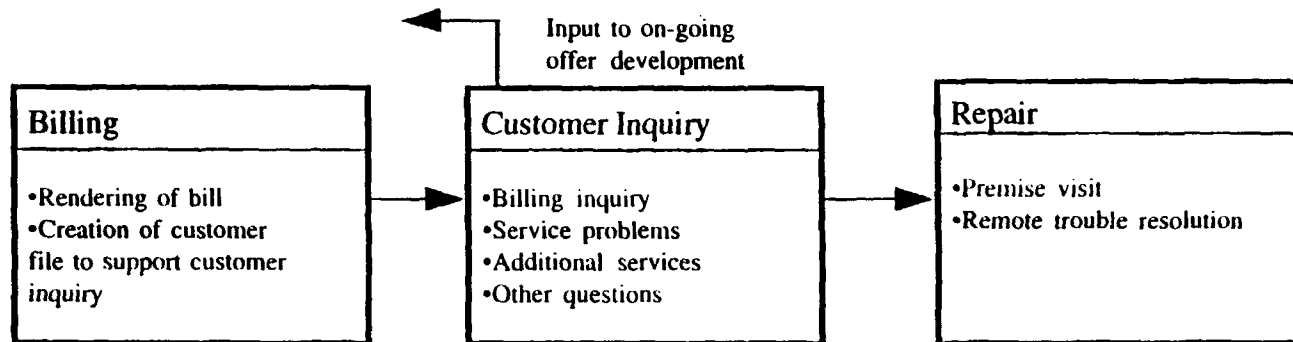
The FCC rules should:

- Support the use and sharing of customer information across affiliates for joint marketing of telecommunication services
- Support the joint development of marketing plans with no requirement to conduct joint marketing through an independent third party or outside marketing entity, no application of cost allocation rules to unregulated, competitive services and no separate affiliate requirement for the offering of vertical services
- Allow for competitive parity as markets open
- Allow for differentiation of offers and service
- Support joint advertising and promotions across affiliates
- Allow for the joint use of brand and trademarks
- Allow for the rendering and customer support necessary for a single bill, including single point of contact
- Allow for the joint use administrative services

Pre-Order and Ordering Process



After-Sales Service



Business Requirements

- Single bill or multiple bill based on customer preferences and efficiently meets needs of the business

- Single point of contact
- Information about all products available to customer service representatives
 - Product descriptions & information
 - Billing questions and adjustments
 - Miscellaneous information
- Direct customer input for additional offer development

- Accountability/responsibility for network
- Highly efficient operations to meet competitive standards

Ideal Marketing Scenario	Market Result Needed
ANALYSIS <ul style="list-style-type: none"> Segmentation of customer types Customer profitability 	<ul style="list-style-type: none"> Use of CPNI across service categories Ability of affiliates to share marketing and sales information
OFFER DEVELOPMENT <ul style="list-style-type: none"> Stand-alone products Multi-product offers Loyalty programs Differentiated service Differentiated offers 	<ul style="list-style-type: none"> Joint development of marketing plans Removal of arms-length test to allow affiliate sharing of marketing and sales information-- resulting in the offering of a variety of MPO packages Competitive parity-- prohibition on IXC rebundling of unbundled elements to avoid joint marketing restriction To insure parity with competitors, no application of overly burdensome cost allocation and affiliate transaction rules to any joint marketing of services
MARKETING & ADVERTISING <ul style="list-style-type: none"> Mass advertising Customized marketing 	<ul style="list-style-type: none"> Removal of arms-length test to allow affiliate sharing of marketing and sales information Joint development of marketing plans Joint advertising and promotions Joint use of brand and trademarks Allow flexible usage of CPNI from one service to market and provide another service in order to maintain parity with competitors To insure parity with competitors, no application of overly burdensome cost allocation and affiliate transaction rules to any joint marketing of services
ORDERING <ul style="list-style-type: none"> Inbound demand channel Other channels (telemarketing, retail, sales reps) 	<ul style="list-style-type: none"> Competitive parity-- IXCs cannot joint market until BOC interLATA entry Ability of affiliates to share marketing and sales information To insure parity with competitors, no application of overly burdensome cost allocation and affiliate transaction rules to any joint marketing of services To maintain competitive parity, remove equal access requirements Allow flexible usage of CPNI from one service to market and provide another service in order to maintain parity with competitors
BILLING <ul style="list-style-type: none"> Rendering of bill Creation of customer file to support customer inquiry 	<ul style="list-style-type: none"> Sharing of billing personnel and information--allowing for single bill; single point of contact Allow flexible usage of CPNI from one service to market and provide another service in order to maintain parity with competitors
CUSTOMER INQUIRY <ul style="list-style-type: none"> Billing inquiry Service problems Additional services Other questions 	<ul style="list-style-type: none"> Removal of arms-length test to allow affiliate sharing of marketing and sales information--resulting in joint sales and single point of contact & customer care for multiple services Allow flexible usage of CPNI from one service to market and provide another service in order to maintain parity with competitors
REPAIR <ul style="list-style-type: none"> Premise visit Remote trouble resolution 	<ul style="list-style-type: none"> Relaxed CPNI requirements-- access to complete customer records Removal of joint ownership restriction to increase service level